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SENATE FINANCE AGRICULTURE TAX PACKAGE: HOMEGROWN ENERGY INDEPENDENCE

As summer approaches, American families are paying higher prices than ever for gasoline. Our country needs to break its dependence on foreign oil and fossil-based fuels – and America's agricultural sector can help with homegrown energy solutions.

The Senate Finance Committee conferees on the farm bill have proposed important incentives for the development of alternative fuels, including cellulosic biofuels and biodiesel, offset by a gradual reduction of the current-law ethanol credit. These biofuel incentives will also help to grow good-paying jobs here at home, by supporting innovation in green-collar technologies.

- **Cellulosic Biofuels:** Cellulosic biofuels can be produced from agricultural waste, wood chips, switch grass and other non-food feedstocks. With an abundant and diverse source of feedstocks available, cellulosic biofuels hold tremendous promise as a home-grown alternative to fossil-based fuels. But because cellulosic biofuels are very expensive to make, government assistance is needed to spur these fuels to commercial viability. This package includes a new, temporary production tax credit for up to \$1.01 per gallon, available through December 31, 2012, with an estimated cost of \$401 million over the ten-year budget window.
- **Biodiesel/Renewable Diesel:** Biodiesel and renewable diesel credits have only been in place for a few years - the biodiesel credit was established in 2004, and the renewable diesel credit in 2005. These nascent industries need more time to establish themselves before they can compete with traditional sources of fuel. Government assistance is critical to that end, and this package extends the current-law \$1.00/gallon and 50¢/gallon biodiesel credits, as well as the 10¢/gallon credit for first 15 million gallons of biodiesel from 'small producers', through 2009. The package also extends the \$1.00/gallon renewable diesel credit through 2009, while adding jet fuel as a qualifying use of renewable diesel. The proposal also caps, on a per-facility basis, the renewable diesel credit at 60 million gallons per year of co-produced fuel, effective for fuel sold or used after the date of enactment. Extending these credits will cost an estimated \$537 million over the ten-year budget window.
- **Ethanol Credit Modification:** The U.S. ethanol industry has grown dramatically in recent years, far exceeding Congress' goals for biofuel production. Now that the ethanol industry has matured, it is appropriate to curb the tax subsidy provided to ethanol. This package reduces the 51¢/gallon credit for ethanol by 6 cents in the year after which the 7.5 billion-gallon threshold established by the 2005 Energy Policy Act is reached. This proposal is similar to a provision in the December 2007 *Clean Renewable Energy and Conservation Tax Act*, and is estimated to raise \$1.226 billion over the next 10 years – enabling tax incentives for additional renewable energy strategies.